

Auditing Procedures Report V1.04

Reset Form

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Issued under Public Act 2 of 1968, as amended.

| | | | | | | | |
|---------------------------|-------------------|------------------------------|---------|---------------------------|----------|----------|---------|
| Unit Name | ROYALTON TOWNSHIP | County | BERRIEN | Type | TOWNSHIP | MuniCode | 11-1170 |
| Opinion Date-Use Calendar | JUNE 24, 2008 | Audit Submitted-Use Calendar | | Fiscal Year-Use Drop List | 2008 | | |

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

| | |
|-------------------------------------|--|
| <input checked="" type="checkbox"/> | 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements? |
| <input checked="" type="checkbox"/> | 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets? |
| <input type="checkbox"/> | 3. Were the local unit's actual expenditures within the amounts authorized in the budget? |
| <input checked="" type="checkbox"/> | 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury? |
| <input type="checkbox"/> | 5. Did the local unit adopt a budget for all required funds? |
| <input checked="" type="checkbox"/> | 6. Was a public hearing on the budget held in accordance with State statute? |
| <input checked="" type="checkbox"/> | 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division? |
| <input checked="" type="checkbox"/> | 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act? |
| <input checked="" type="checkbox"/> | 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy? |
| <input checked="" type="checkbox"/> | 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.) |
| <input checked="" type="checkbox"/> | 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.) |
| <input checked="" type="checkbox"/> | 12. Is the local unit free of repeated reported deficiencies from previous years? |
| <input checked="" type="checkbox"/> | 13. Is the audit opinion unqualified? |
| | 14. If not, what type of opinion is it? <input type="text" value="NA"/> |
| <input checked="" type="checkbox"/> | 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)? |
| <input checked="" type="checkbox"/> | 16. Has the board or council approved all disbursements prior to payment as required by charter or statute? |
| <input type="checkbox"/> | 17. To your knowledge, were the bank reconciliations that were reviewed performed timely? |
| <input checked="" type="checkbox"/> | 18. Are there reported deficiencies? |
| <input type="checkbox"/> | 19. If so, was it attached to the audit report? |

| | |
|----------------------------|--------------------------------------|
| General Fund Revenue: | <input type="text" value="869,697"/> |
| General Fund Expenditure: | <input type="text" value="505,327"/> |
| Major Fund Deficit Amount: | <input type="text" value="N/A"/> |

| | |
|--|--|
| General Fund Balance: | <input type="text" value="1,486,496"/> |
| Governmental Activities Long-Term Debt (see instructions): | <input type="text" value="168,180"/> |

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

| | | | | | | | |
|--------------------|----------------------|-----------------------|-----------------|--------------------------|------------|----------|-------|
| CPA (First Name) | ROBERT L. | Last Name | GERBEL | Ten Digit License Number | 0000003953 | | |
| CPA Street Address | PO BOX 44 | City | ST. JOSEPH | State | MI | Zip Code | 49085 |
| CPA Firm Name | GERBEL & COMPANY, PC | Unit's Street Address | 980 MINERS ROAD | City | ST. JOSEPH | LU Zip | 49085 |

ROYALTON TOWNSHIP
BERRIEN COUNTY, MICHIGAN

FINANCIAL REPORT

March 31, 2008

**ROYALTON TOWNSHIP
BERRIEN COUNTY, MICHIGAN**

FINANCIAL REPORT

MARCH 31, 2008

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ROYALTON TOWNSHIP

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St. Joseph, Michigan 49085
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Steve Tilly, Supervisor
Rocky Genovese, Clerk
Michael Klug, Treasurer

Robert Basselman, Trustee
William Foust, Trustee

MANAGEMENT DISCUSSION AND ANALYSIS

As the management of Royalton Township, we offer the readers of these financial statements this narrative overview and analysis of the financial activities of Royalton Township for the fiscal year ended March 31, 2008. We encourage readers to consider the overview presented here in conjunction with the additional information that our auditors have provided within this report.

FINANCIAL HIGHLIGHTS

The assets of Royalton Township exceeded its liabilities at the close of the most recent fiscal year by \$13,914,271. Of this amount, \$7,806,753 may be used to meet the ongoing obligations to our citizens and creditors.

The Township's total net assets increased by \$483,790.

At the close of the current fiscal year, Royalton Township's Governmental Funds reported combined ending fund balances of \$2,339,975 an increase of \$13,049 in comparison with the prior year. Approximately \$2,117,788 of this total is available for spending at the government's discretion.

At the end of the current fiscal year, the general fund unreserved fund balance was \$1,264,309 or 251% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Royalton Township's basic financial statements. Royalton Township's basic financial statements include the following three components:

1. Government-Wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

In addition to the basic financial statements themselves, this report also contains other supplementary information.

1. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements are designed to provide the reader with a broad overview of Royalton Township's finances, in a manner similar to a private-sector business.

The **Statement of Net Assets** presents information on all of Royalton Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Royalton Township is improving or deteriorating.

The **Statement of Activities** presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of these Government-Wide Financial Statements distinguish Township functions, which are principally supported by taxes and intergovernmental revenues from those functions that are intended to recover all or a significant portion of their costs through user fees and charges for services. The governmental activities of Royalton Township include general government, public safety, sanitation, health and welfare, recreation and culture, and community and economic development. The business-type activities of Royalton Township include water and sewer operations.

2. FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Royalton Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Royalton Township can be divided into three categories: governmental funds, a proprietary fund, and a fiduciary fund.

GOVERNMENTAL FUNDS

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of Governmental Funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, the reader may better understand the long-term impact of the Township's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities.

Royalton Township maintains three individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the general fund, the public welfare fund and the inspection fund.

Royalton Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and major special revenue funds to demonstrate compliance with this budget.

PROPRIETARY FUNDS

Enterprise funds are used to report the same functions presented as business-type activities in the Government-Wide Financial Statements. Royalton Township uses an enterprise fund to account for its water and sewer operations.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of those funds are not available to support Royalton Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

3. NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of Royalton Township, assets exceeded liabilities by \$13,914,271 at the close of the 2007-2008 fiscal year.

Royalton Township uses capital assets to provide services to citizens; and consequently, these assets are not available for future spending. Although Royalton Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

ROYALTON TOWNSHIP NET ASSETS

| | <u>GOVERNMENTAL ACTIVITIES</u> | <u>BUSINESS-TYPE ACTIVITIES</u> | <u>CURRENT YEAR TOTAL</u> | <u>PRIOR YEAR TOTAL</u> |
|--|------------------------------------|-------------------------------------|-------------------------------|-----------------------------|
| Current and other assets | \$ 2,359,754 | \$ 6,036,880 | \$ 8,396,634 | \$ 8,270,561 |
| Capital assets | <u>1,304,020</u> | <u>9,175,214</u> | <u>10,479,234</u> | <u>10,430,117</u> |
| TOTAL ASSETS | <u>3,663,774</u> | <u>15,212,094</u> | <u>18,875,868</u> | <u>18,700,678</u> |
| | | | | |
| Long-term liabilities | 168,180 | 4,630,000 | 4,798,180 | 5,120,000 |
| Other liabilities | <u>19,779</u> | <u>143,638</u> | <u>163,417</u> | <u>150,197</u> |
| TOTAL LIABILITIES | <u>187,959</u> | <u>4,773,638</u> | <u>4,961,597</u> | <u>5,270,197</u> |
| | | | | |
| Invested in capital assets, net of related debt | 1,304,020 | 4,545,214 | 5,849,234 | 5,535,117 |
| Restricted | 222,187 | 36,097 | 258,284 | 57,770 |
| Unrestricted | <u>1,949,608</u> | <u>5,857,145</u> | <u>7,806,753</u> | <u>7,837,684</u> |
| TOTAL NET ASSETS | <u>\$ 3,475,815</u> | <u>\$ 10,438,456</u> | <u>\$ 13,914,271</u> | <u>\$ 13,430,571</u> |

\$901 of Royalton Township's net assets (<.5%) represents resources that are subject to external restrictions on how they may be used and \$257,383 (1.8%) is restricted for uses determined by the tax millage which generated the related revenues. The remaining balance of unrestricted net assets, (\$7,806,753) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Royalton Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**ROYALTON TOWNSHIP
CHANGES IN NET ASSETS**

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | CURRENT YEAR TOTAL | PRIOR YEAR TOTAL |
|-----------------------------------|------------------------------------|-------------------------------------|-------------------------------|-----------------------------|
| REVENUES | | | | |
| PROGRAM REVENUES | | | | |
| Charges for services | \$ 322,767 | \$ 792,666 | \$ 1,115,433 | \$ 1,147,787 |
| Grants and contributions | 272,142 | - | 272,142 | 268,883 |
| GENERAL REVENUES | | | | |
| Property taxes | 629,403 | - | 629,403 | 356,201 |
| Interest earned | 66,049 | 284,232 | 350,281 | 382,717 |
| Gain (loss) on sale of assets | 5,050 | 121 | 5,171 | (12,378) |
| TOTAL REVENUES | 1,295,411 | 1,077,019 | 2,372,430 | 2,143,210 |
| EXPENSES | | | | |
| Legislative | 6,612 | - | 6,612 | 4,979 |
| General government | 484,070 | - | 484,070 | 422,080 |
| Public safety | 382,351 | - | 382,351 | 356,129 |
| Public works | 25,235 | - | 25,235 | 188,935 |
| Recreation and cultural | 56,754 | - | 56,754 | 52,688 |
| Public Utility Fund | - | 933,618 | 933,618 | 789,485 |
| TOTAL EXPENSES | 955,022 | 933,618 | 1,888,640 | 1,814,296 |
| Change in Net Assets | 340,389 | 143,401 | 483,790 | 328,914 |
| Net Assets Beginning of the Year | 3,135,426 | 10,295,055 | 13,430,481 | 13,101,567 |
| NET ASSETS END OF THE YEAR | \$ 3,475,815 | \$ 10,438,456 | \$ 13,914,271 | \$ 13,430,481 |

GOVERNMENTAL ACTIVITIES

Governmental Activities increased Royalton Township's net assets by \$340,389 resulting in a 11% increase in the net assets of Royalton Township. Grants and contributions were \$272,142 or 21% of the total governmental revenues. Charges for services were \$322,767 or 25% of the total governmental revenues. The remaining 54% is composed of property taxes, interest income and gain (loss) on sale of assets. Public safety expenditures totaled \$382,351 or 41% of the governmental expenses. General government and recreation and cultural expenditures totaled 56% of the governmental expenses.

BUSINESS-TYPE ACTIVITIES

Business-type Activities increased Royalton Township's net assets by \$143,401. Charges for services were \$792,666 or 74% of the total business-type revenues. The remaining 26% is composed of interest income and gain on sale of assets.

FINANCIAL ANALYSIS OF ROYALTON TOWNSHIP'S FUNDS

As noted earlier, Royalton Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of Royalton Township's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Royalton Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year Royalton Township's Governmental Funds reported combined ending fund balances of \$2,339,975, an increase of \$13,049 in comparison with the prior year. Approximately 91% of this total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for future projects.

The General Fund is the chief operating fund of Royalton Township. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,264,309. The General Fund balance of Royalton Township has increased by \$366,570 from the previous year.

PROPRIETARY FUNDS

Royalton Township's Proprietary Fund provides the same type of information found in the Government-Wide Financial Statements, but in more detail.

Unrestricted net assets of the Public Utility Fund at the end of the year amounted to \$5,857,145. Water activity increased net assets by \$41,100; sewer activity increased net assets by \$102,301.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Royalton Township's investment in capital assets for its governmental and business-type activities as of March 31, 2008 amounts to \$10,479,234 (net of depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, and utility systems.

In 2007, Royalton Township approved bonding for a new lift station for sanitary sewer. Royalton Township's sanitary sewer presently flows through St. Joseph Charter Township, and this lift station will allow the sanitary sewer line to bypass St. Joseph Charter Township.

The bond will be paid by user fees from the Public Utility Fund. No special assessments will be charged to property owners for this project.

The new lift station is scheduled to be installed and functioning in late August or September of 2008. The new lift station will be located at the northwest corner of Maiden Lane and Hollywood Road. Sanitary sewage will then be pumped north on Hollywood Road, then under I-94 north down M-63 to the Water Authority's lift station located by the marina in St. Joseph Charter Township.

In 2007, our Fire Department placed into service a new Reserve Pumper Fire Truck. This truck replaced a 1975 Ford Pumper.

In 2008, the Township will begin repairing roads in Royalton Township with the money collected from the new Township road millage. We have worked with the Berrien County Road Commission to develop a plan for repairing the roads.

LONG-TERM DEBT

At the end of the current fiscal year, Royalton Township had total debt outstanding of \$4,798,180.

State statutes limit the amount of general obligation bond debt governmental entities may issue to 10% of its total state equalized valuation and the amount of general obligation installment note debt to 1.25% of its total state equalized valuation. The current debt limitation for Royalton Township is \$27,149,343 for bond debt and \$3,393,667 for note debt, which is significantly in excess of the Royalton Township's outstanding general obligation debt.

NEXT YEAR'S BUDGET

Royalton Township anticipates expenditures over revenues in the general fund will result in a \$23 increase in fund balance.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Royalton Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Royalton Township, 980 Miners Road, St. Joseph, Michigan 49085.

**ROYALTON TOWNSHIP
TOWNSHIP BOARD
MARCH 31, 2008**

| | |
|-------------------------|-------------------|
| STEVE TILLY | SUPERVISOR |
| ROCKY GENOVESE | CLERK |
| MICHAEL KLUG | TREASURER |
| WILLIAM FOUST | TRUSTEE |
| ROBERT BASSLEMAN | TRUSTEE |

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

June 24, 2008

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Royalton Township
St. Joseph, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Royalton Township, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures on the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities, the business-type activities and each major fund, of Royalton Township, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages I through VI is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Royalton Township's basic financial statements. The supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gerbel & Company, P.C.

Right. On time.

**ROYALTON TOWNSHIP
STATEMENT OF NET ASSETS
MARCH 31, 2008**

| | PRIMARY GOVERNMENT | | |
|--|------------------------------------|-------------------------------------|----------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,888,922 | \$ 1,982,770 | \$ 3,871,692 |
| Restricted cash | 222,187 | 36,097 | 258,284 |
| Certificates of deposit | 181,152 | 214,083 | 395,235 |
| Current portion of special assessment receivable | - | 477,794 | 477,794 |
| Receivables | 31,200 | 35,429 | 66,629 |
| Due from Current Tax Fund | 11,665 | - | 11,665 |
| Due from employees | 1,990 | - | 1,990 |
| Prepaid expenses | 22,638 | - | 22,638 |
| Bond cost (net of accumulated amortization) | - | 152,112 | 152,112 |
| Bond discount (net of accumulated amortization) | - | 59,394 | 59,394 |
| Special assessment receivable | - | 3,079,201 | 3,079,201 |
| Capital assets (net of related depreciation): | | | |
| Land | 187,875 | - | 187,875 |
| Buildings | 519,243 | - | 519,243 |
| Vehicles | 501,910 | - | 501,910 |
| Equipment | 94,992 | - | 94,992 |
| Utility systems | - | 9,175,214 | 9,175,214 |
| Total Assets | <u>3,663,774</u> | <u>15,212,094</u> | <u>18,875,868</u> |
| LIABILITIES | | | |
| Accounts payable | 19,779 | 60,576 | 80,355 |
| Accrued interest | - | 83,062 | 83,062 |
| Noncurrent liabilities: | | | |
| Due within one year | 33,121 | 315,000 | 348,121 |
| Due in more than one year | <u>135,059</u> | <u>4,315,000</u> | <u>4,450,059</u> |
| Total Liabilities | <u>187,959</u> | <u>4,773,638</u> | <u>4,961,597</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,304,020 | 4,545,214 | 5,849,234 |
| Restricted for cemetery | 901 | - | 901 |
| Restricted for road improvements | 221,286 | - | 221,286 |
| Restricted for construction | - | 36,097 | 36,097 |
| Unrestricted | <u>1,949,608</u> | <u>5,857,145</u> | <u>7,806,753</u> |
| TOTAL NET ASSETS | <u>\$ 3,475,815</u> | <u>\$ 10,438,456</u> | <u>\$ 13,914,271</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008**

| <u>FUNCTIONS/PROGRAMS</u> | <u>EXPENSES</u> | <u>PROGRAM REVENUES</u> | | |
|--------------------------------|---------------------|---------------------------------|---|---|
| | | <u>CHARGES FOR SERVICES</u> | <u>OPERATING GRANTS AND CONTRIBUTIONS</u> | <u>CAPITAL GRANTS AND CONTRIBUTIONS</u> |
| PRIMARY GOVERNMENT: | | | | |
| Governmental Activities: | | | | |
| Legislative | \$ 6,612 | \$ - | \$ - | \$ - |
| General government | 484,070 | 150,109 | 272,142 | - |
| Public safety | 382,351 | 172,658 | - | - |
| Public works | 25,235 | - | - | - |
| Recreation and cultural | 56,754 | - | - | - |
| Total Governmental Activities | <u>955,022</u> | <u>322,767</u> | <u>272,142</u> | <u>-</u> |
| Business-type Activities: | | | | |
| Public Utility Fund | <u>933,618</u> | <u>792,666</u> | <u>-</u> | <u>-</u> |
| Total Business-type Activities | <u>933,618</u> | <u>792,666</u> | <u>-</u> | <u>-</u> |
| Total Primary Government | <u>\$ 1,888,640</u> | <u>\$ 1,115,433</u> | <u>\$ 272,142</u> | <u>\$ -</u> |

General revenues:

Property taxes

Interest

Gain (loss) on sale of assets

Total General Revenues

Change in Net Assets

Net Assets - Beginning of the Year

NET ASSETS - END OF THE YEAR

The accompanying notes are an integral part of these financial statements.

**NET (EXPENSE) REVENUES AND
CHANGES IN NET ASSETS
PRIMARY GOVERNMENT**

| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|------------------------------------|-------------------------------------|----------------------|
| \$ (6,612) | \$ - | \$ (6,612) |
| (61,819) | - | (61,819) |
| (209,693) | - | (209,693) |
| (25,235) | - | (25,235) |
| (56,754) | - | (56,754) |
| <u>(360,113)</u> | <u>-</u> | <u>(360,113)</u> |
| <u>-</u> | <u>(140,952)</u> | <u>(140,952)</u> |
| <u>-</u> | <u>(140,952)</u> | <u>(140,952)</u> |
| <u>(360,113)</u> | <u>(140,952)</u> | <u>(501,065)</u> |
| 629,403 | - | 629,403 |
| 66,049 | 284,232 | 350,281 |
| 5,050 | 121 | 5,171 |
| <u>700,502</u> | <u>284,353</u> | <u>984,855</u> |
| 340,389 | 143,401 | 483,790 |
| <u>3,135,426</u> | <u>10,295,055</u> | <u>13,430,481</u> |
| <u>\$ 3,475,815</u> | <u>\$ 10,438,456</u> | <u>\$ 13,914,271</u> |

**ROYALTON TOWNSHIP
GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2008**

| | <u>GENERAL FUND</u> | <u>PUBLIC WELFARE MILLAGE FUND</u> | <u>INSPECTION FUND</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|--|-------------------------|--|----------------------------|---|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 1,053,825 | \$ 396,108 | \$ 438,989 | \$ 1,888,922 |
| Restricted cash for cemetery | 901 | - | - | 901 |
| Restricted for road improvements | 221,286 | - | - | 221,286 |
| Certificates of deposit | 181,152 | - | - | 181,152 |
| Taxes receivable | 21,111 | 10,089 | - | 31,200 |
| Due from other funds | 11,665 | - | - | 11,665 |
| Due from employees | 1,990 | - | - | 1,990 |
| Prepaid expense | 11,356 | 11,282 | - | 22,638 |
| TOTAL ASSETS | <u>\$ 1,503,286</u> | <u>\$ 417,479</u> | <u>\$ 438,989</u> | <u>\$ 2,359,754</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 16,790 | 1,863 | 1,126 | 19,779 |
| Total Liabilities | <u>16,790</u> | <u>1,863</u> | <u>1,126</u> | <u>19,779</u> |
| Fund Balances: | | | | |
| Reserved for cemetery | 901 | - | - | 901 |
| Reserved for road improvements | 221,286 | - | - | 221,286 |
| Unreserved | 1,264,309 | 415,616 | 437,863 | 2,117,788 |
| Total Fund Balances | <u>1,486,496</u> | <u>415,616</u> | <u>437,863</u> | <u>2,339,975</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 1,503,286</u> | <u>\$ 417,479</u> | <u>\$ 438,989</u> | <u>\$ 2,359,754</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2008**

| | | | |
|---|------------------|--|---------------------|
| Fund balances of governmental funds | | | \$ 2,339,975 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | | |
| Capital assets, at cost | \$ 1,954,891 | | |
| Accumulated depreciation | <u>(650,871)</u> | | |
| Net capital assets | | | 1,304,020 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds | | | <u>(168,180)</u> |
| Net assets of governmental activities | | | <u>\$ 3,475,815</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2008**

| | <u>GENERAL FUND</u> | <u>PUBLIC WELFARE MILLAGE FUND</u> | <u>INSPECTION FUND</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|--|-------------------------|--|----------------------------|---|
| REVENUES: | | | | |
| Taxes | \$ 406,516 | \$ 222,887 | \$ - | \$ 629,403 |
| State revenues | 272,142 | - | - | 272,142 |
| Collection fees | 60,216 | - | - | 60,216 |
| Permits | - | - | 172,658 | 172,658 |
| Rents | 10,907 | - | - | 10,907 |
| Cemetery revenue | 6,791 | - | - | 6,791 |
| Interest | 40,930 | 11,681 | 13,438 | 66,049 |
| Other | 72,195 | - | - | 72,195 |
| Total Revenues | <u>869,697</u> | <u>234,568</u> | <u>186,096</u> | <u>1,290,361</u> |
| EXPENDITURES: | | | | |
| Legislative | 6,612 | - | - | 6,612 |
| General government | 446,002 | - | - | 446,002 |
| Public safety | 2,874 | 91,317 | 236,627 | 330,818 |
| Public works | 25,235 | - | - | 25,235 |
| Recreation and cultural | 10,098 | 46,656 | - | 56,754 |
| Capital outlay | 14,506 | 387,184 | 15,251 | 416,941 |
| Total Expenditures | <u>505,327</u> | <u>525,157</u> | <u>251,878</u> | <u>1,282,362</u> |
| Revenues Over (Under) Expenditures | <u>364,370</u> | <u>(290,589)</u> | <u>(65,782)</u> | <u>7,999</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sale of assets | <u>2,200</u> | <u>2,850</u> | <u>-</u> | <u>5,050</u> |
| Total Other Financing Sources (Uses) | <u>2,200</u> | <u>2,850</u> | <u>-</u> | <u>5,050</u> |
| Net Change in Fund Balances | 366,570 | (287,739) | (65,782) | 13,049 |
| Fund Balances - Beginning of the Year | <u>1,119,926</u> | <u>703,355</u> | <u>503,645</u> | <u>2,326,926</u> |
| FUND BALANCES - END OF THE YEAR | <u>\$ 1,486,496</u> | <u>\$ 415,616</u> | <u>\$ 437,863</u> | <u>\$ 2,339,975</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008**

| | |
|---|-------------------|
| Net change in fund balances - total governmental funds | \$ 13,049 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$372,433) exceeded depreciation (\$76,913). | 295,520 |
| Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets | <u>31,820</u> |
| Changes in net assets of governmental activities | <u>\$ 340,389</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008**

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCES WITH</u> |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>AMOUNTS</u> | <u>FINAL BUDGET</u> |
| | | | | <u>POSITIVE</u> |
| | | | | <u>(NEGATIVE)</u> |
| REVENUES: | | | | |
| Taxes | \$ 330,132 | \$ 330,132 | \$ 406,516 | \$ 76,384 |
| State revenues | 266,460 | 264,037 | 272,142 | 8,105 |
| Collection fees | 36,110 | 53,542 | 60,216 | 6,674 |
| Rents | 2,425 | 2,425 | 10,907 | 8,482 |
| Cemetery revenue | 6,900 | 6,900 | 6,791 | (109) |
| Interest | 12,000 | 7,175 | 40,930 | 33,755 |
| Other | 44,500 | 63,169 | 72,195 | 9,026 |
| Total Revenues | <u>698,527</u> | <u>727,380</u> | <u>869,697</u> | <u>142,317</u> |
| EXPENDITURES: | | | | |
| Legislative | 6,600 | 6,600 | 6,612 | (12) |
| General government | 458,585 | 478,522 | 446,002 | 32,520 |
| Public safety | 3,085 | 3,085 | 2,874 | 211 |
| Public works | 32,400 | 32,500 | 25,235 | 7,265 |
| Recreation and cultural | 15,995 | 15,995 | 10,098 | 5,897 |
| Capital outlay | - | - | 14,506 | (14,506) |
| Total Expenditures | <u>516,665</u> | <u>536,702</u> | <u>505,327</u> | <u>31,375</u> |
| Other Financing Sources (Uses): | | | | |
| Sale of assets | - | - | 2,200 | 2,200 |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>2,200</u> | <u>2,200</u> |
| Net Change in Fund Balances | 181,862 | 190,678 | 366,570 | 175,892 |
| Fund Balances - Beginning of the Year | <u>1,119,926</u> | <u>1,119,926</u> | <u>1,119,926</u> | <u>-</u> |
| FUND BALANCES - END OF THE YEAR | <u>\$ 1,301,788</u> | <u>\$ 1,310,604</u> | <u>\$ 1,486,496</u> | <u>\$ 175,892</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
PUBLIC WELFARE MILLAGE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008**

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCES WITH</u> |
|--|--------------------------|--------------------------|--------------------------|---------------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>AMOUNTS</u> | <u>FINAL BUDGET</u> |
| | | | | <u>POSITIVE</u> |
| | | | | <u>(NEGATIVE)</u> |
| REVENUES: | | | | |
| Taxes | | | \$ 222,887 | |
| Interest | | | <u>11,681</u> | |
| Total Revenues | <u>\$ 183,000</u> | <u>\$ 196,833</u> | <u>234,568</u> | <u>\$ 37,735</u> |
| EXPENDITURES: | | | | |
| Public safety | | | 91,317 | |
| Recreation and cultural | | | 46,656 | |
| Capital outlay | | | <u>387,184</u> | |
| Total Expenditures | <u>191,392</u> | <u>397,103</u> | <u>525,157</u> | <u>(128,054)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sale of assets | | | <u>2,850</u> | |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>2,850</u> | <u>2,850</u> |
| Net Change in Fund Balances | (8,392) | (200,270) | (287,739) | (87,469) |
| Fund Balances - Beginning of the Year | <u>703,355</u> | <u>703,355</u> | <u>703,355</u> | <u>-</u> |
| FUND BALANCES - END OF THE YEAR | <u>\$ 694,963</u> | <u>\$ 503,085</u> | <u>\$ 415,616</u> | <u>\$ (87,469)</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
INSPECTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MARCH 31, 2008**

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCES WITH</u> |
|--|--------------------------|--------------------------|--------------------------|---------------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>AMOUNTS</u> | <u>FINAL BUDGET</u> |
| | | | | <u>POSITIVE</u> |
| | | | | <u>(NEGATIVE)</u> |
| REVENUES: | | | | |
| Permits | | | \$ 172,658 | |
| Interest | | | 13,438 | |
| Total Revenues | <u>\$ 198,000</u> | <u>\$ 198,000</u> | <u>186,096</u> | <u>\$ (11,904)</u> |
| EXPENDITURES: | | | | |
| Public safety | | | 236,627 | |
| Capital outlay | | | 15,251 | |
| Total Expenditures | <u>205,346</u> | <u>240,000</u> | <u>251,878</u> | <u>(11,878)</u> |
| Net Change in Fund Balances | (7,346) | (42,000) | (65,782) | (23,782) |
| Fund Balances - Beginning of the Year | <u>503,645</u> | <u>503,645</u> | <u>503,645</u> | <u>-</u> |
| FUND BALANCES - END OF THE YEAR | <u>\$ 496,299</u> | <u>\$ 461,645</u> | <u>\$ 437,863</u> | <u>\$ (23,782)</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
STATEMENT OF NET ASSETS
MARCH 31, 2008**

ASSETS

Current Assets:

| | |
|--|------------------|
| Cash and cash equivalents | \$ 1,982,770 |
| Restricted cash | 36,097 |
| Certificates of deposit | 214,083 |
| Current portion of special assessment receivable | 477,794 |
| Delinquent water receivable | 2,901 |
| Delinquent special assessment receivable | <u>32,528</u> |
| Total Current Assets | <u>2,746,173</u> |

Noncurrent Assets:

| | |
|---|--------------------|
| Special assessment receivable | 3,079,201 |
| Water bond cost, net of \$92,494 accumulated amortization | 152,112 |
| Water bond discount, net of \$42,689 accumulated amortization | 59,394 |
| Plant, property, and equipment | 12,194,176 |
| Accumulated depreciation | <u>(3,018,962)</u> |
| Total Noncurrent Assets | <u>12,465,921</u> |

| | |
|--------------|-------------------|
| Total Assets | <u>15,212,094</u> |
|--------------|-------------------|

LIABILITIES AND NET ASSETS

Current Liabilities:

| | |
|----------------------------------|----------------|
| Accounts payable | 60,576 |
| Current portion of bonds payable | 290,000 |
| Current portion of note payable | 25,000 |
| Accrued interest | <u>83,062</u> |
| Total Current Liabilities | <u>458,638</u> |

Long-Term Liabilities:

| | |
|---------------------------------------|------------------|
| Bonds payable, net of current portion | <u>4,315,000</u> |
| Total Liabilities | <u>4,773,638</u> |

Net Assets:

| | |
|---|------------------|
| Invested in capital assets, net of related debt | 4,545,214 |
| Restricted for construction | 36,097 |
| Unrestricted | <u>5,857,145</u> |

| | |
|-------------------------|-----------------------------|
| TOTAL NET ASSETS | <u>\$ 10,438,456</u> |
|-------------------------|-----------------------------|

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2008**

| | |
|---|-----------------------------|
| OPERATING REVENUES: | |
| Changes for services | \$ 792,666 |
| OPERATING EXPENSES: | |
| Sewer treatment charges | 226,666 |
| Professional services | 23,460 |
| Salaries and wages | 24,151 |
| Payroll taxes | 1,848 |
| Depreciation and amortization | 291,353 |
| Utilities | 22,094 |
| Supplies | 17,713 |
| Repair and maintenance | 33,556 |
| Contribution to LMSWSTA | 87,050 |
| Miscellaneous | 6,018 |
| Total Operating Expenses | <u>733,909</u> |
| Operating Income | <u>58,757</u> |
| NONOPERATING REVENUES (EXPENSES): | |
| Interest income | 284,232 |
| Interest expense | (199,709) |
| Gain on sale of assets | 121 |
| Total Nonoperating Revenues (Expenses) | <u>84,644</u> |
| Change in Net Assets | 143,401 |
| Total Net Assets - Beginning of the Year | <u>10,295,055</u> |
| TOTAL NET ASSETS - END OF THE YEAR | <u>\$ 10,438,456</u> |

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|------------------------------|------------------|
| Cash receipts from customers | \$ 1,119,398 |
| Other payments | (22,773) |
| Payments to employees | (25,999) |
| Payments to suppliers | <u>(394,439)</u> |

| | |
|---|----------------|
| Net cash provided by operating activities | <u>676,187</u> |
|---|----------------|

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

| | |
|--------------------------------|-----------------|
| Interest paid on capital debt | (203,750) |
| Principal paid on capital debt | (290,000) |
| Sales of capital assets | 2,613 |
| Purchases of capital assets | <u>(30,106)</u> |

| | |
|---|------------------|
| Net cash used by capital and related financing activities | <u>(521,243)</u> |
|---|------------------|

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|--------------------------------------|---------------|
| Special assessment interest received | 208,047 |
| Interest and dividends received | <u>76,185</u> |

| | |
|---|----------------|
| Net cash provided by investing activities | <u>284,232</u> |
|---|----------------|

| | |
|--|---------|
| Net increase (decrease) in cash and cash equivalents | 439,176 |
|--|---------|

| | |
|----------------------------------|------------------|
| Balances - Beginning of the Year | <u>1,793,774</u> |
|----------------------------------|------------------|

| | |
|-----------------------------------|----------------------------|
| BALANCES - END OF THE YEAR | <u>\$ 2,232,950</u> |
|-----------------------------------|----------------------------|

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

| | |
|------------------|------------------|
| Operating income | <u>\$ 58,757</u> |
|------------------|------------------|

Adjustments to reconcile operating income to net cash
provided by operating activities:

| | |
|---------------------------------------|-----------------|
| Depreciation and amortization expense | 291,353 |
| (Increase) decrease in: | |
| Accounts receivable | 326,732 |
| Increase (decrease) in: | |
| Accounts payable | 54,856 |
| Due to other governments | <u>(55,511)</u> |

| | |
|-------------------|----------------|
| Total Adjustments | <u>617,430</u> |
|-------------------|----------------|

| | |
|--|--------------------------|
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 676,187</u> |
|--|--------------------------|

The accompanying notes are an integral part of these financial statements.

**ROYALTON TOWNSHIP
FIDUCIARY FUND
CURRENT TAX COLLECTION FUND
STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2008**

ASSETS

| | |
|---------------------------|------------------|
| Cash and cash equivalents | <u>\$ 11,665</u> |
|---------------------------|------------------|

| | |
|--------------|------------------|
| TOTAL ASSETS | <u>\$ 11,665</u> |
|--------------|------------------|

LIABILITIES

| | |
|---------------------|------------------|
| Due to General Fund | <u>\$ 11,665</u> |
|---------------------|------------------|

| | |
|-------------------|------------------|
| TOTAL LIABILITIES | <u>\$ 11,665</u> |
|-------------------|------------------|

The accompanying notes are an integral part of these financial statements.

ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by Royalton Township, Michigan, conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant government accounting policies are described below:

A. REPORTING ENTITY

In evaluating how to define the Township's reporting purposes, management has considered all potential component units. The decision whether to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Township is able to exercise oversight responsibilities. Based upon the application of these criteria, the Township does not have any component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government of the Township. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary fund and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENTS - CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

Royalton Township reports the following major governmental funds:

The **General Fund** is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Public Welfare Millage Fund** is used to account for the Township's fire department as well as payments for library and ambulance service.

The **Inspection Fund** is used to account for the activities of the inspection department.

Royalton Township reports the following major proprietary fund:

The **Public Utility Fund** accounts for the activities related to the Township's water production, purification, distribution, billing, sanitary collection system and waste water treatment.

Additionally, Royalton Township reports the following fund type:

The **Agency Fund** is used to collect and distribute State of Michigan, Berrien County, Lake Michigan College, Berrien Springs Public Schools, St. Joseph Public Schools, Lakeshore Public Schools, and Berrien County Intermediate School District property taxes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenues.

**ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENTS - CONTINUED

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for proprietary funds includes the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first. Unrestricted resources are used as they are needed.

D. BUDGETARY DATA

At a March meeting the Township Manager submits to the Township Board a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them for all governmental and proprietary fund types. Public hearings are then conducted at the Township Hall to obtain taxpayer comments. Prior to March 31, the budget is legally enacted on a summary budget basis through passage of a resolution.

E. CAPITAL ASSETS

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by Royalton Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statements of net assets. The straight-line depreciation method is applied over the estimated useful lives of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

| <u>ASSET CLASS</u> | <u>DEPRECIABLE LIFE</u> |
|--------------------|-------------------------|
| Land | N/A |
| Buildings | 40 years |
| Equipment | 5-10 years |
| Vehicles | 5-15 years |
| Utility Systems | 39-40 years |

Bond costs and bond discounts are capitalized and amortized using the straight-line method over the life of the bonds.

**ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. LONG-TERM LIABILITIES

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using straight-line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

G. PROPERTY TAXES

Township property taxes are levied on December 1 and are payable without penalty through February 15. The Township bills and collects its own property taxes and also taxes for the County and several school districts within its jurisdiction. Collections and remittances of all taxes are accounted for in the Current Tax Agency Fund.

H. SANITATION AND WATER BILLINGS

The Township has a contract with the City of St. Joseph for Sanitation Supply System and Water Supply System billings. The City collects the billings and remits the Township's portion according to the contract.

I. INVESTMENTS AND CASH EQUIVALENTS

Investments are stated at cost or amortized cost, which approximates market.

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents.

J. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE 2 - CASH DEPOSITS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. Royalton Township's deposits are in accordance with statutory authority. The Township has designated Fifth Third Bank for the deposit of its funds.

**ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 2 - CASH DEPOSITS - CONTINUED

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL PRIMARY GOVERNMENT |
|---------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| Cash and cash equivalents | \$ 1,888,922 | \$ 1,982,770 | \$ 3,871,692 |
| Restricted cash | 222,187 | 36,097 | 258,284 |
| Certificates of deposit | <u>181,152</u> | <u>214,083</u> | <u>395,235</u> |
| Total | <u>\$ 2,292,261</u> | <u>\$ 2,232,950</u> | <u>\$ 4,525,211</u> |

YEAR-END DEPOSITS

For the bank deposits and certificates of deposit, \$100,000 was covered by federal depository insurance and \$4,436,876 was uninsured. The bank balances are categorized to give an indication of the level of risk assumed by the Township at year-end.

| | CARRYING AMOUNT | BANK BALANCES |
|----------------------------|----------------------------|--------------------------|
| PRIMARY GOVERNMENT | | |
| Amount insured by the FDIC | \$ 88,335 | \$ 55,674 |
| Uninsured | <u>4,436,876</u> | <u>4,447,929</u> |
| Total Primary Government | \$ 4,525,211 | \$ 4,503,603 |
| FIDUCIARY FUND | | |
| Amount insured by the FDIC | <u>11,665</u> | <u>44,326</u> |
| Total Reporting Entity | <u>\$ 4,536,876</u> | <u>\$ 4,547,929</u> |

NOTE 3 - JOINT VENTURE

LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY

On July 18, 1964, the Townships of St. Joseph and Lincoln, and Villages of Shoreham and Stevensville formed a joint venture to acquire, improve, extend and operate a water supply and sewage disposal system. In January 2000, Royalton Township joined the Authority.

The three participating townships fund the operating and debt service costs based on their percentage of the total usage of the water supply and sewage disposal system.

The governing body consists of eight members. Each township selects two members and each village selects one member. From these eight members a Chairman, Vice-Chairman, Secretary and Treasurer are selected.

An annual budget is submitted to and approved by the Authority. Once this has been completed, the budget is reviewed by each respective municipality for approval.

In accordance with the Authority's charter, budget approval requires unanimous consent of all members. The Village of Stevensville refused to approve the budget for the fiscal year beginning July 1, 2007. As a result, the three township members of the Authority formed a new entity to take responsibility for the day to day operations. The new entity is called the Southwest Michigan Regional Sanitary Sewer & Water Authority.

**ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 3 - JOINT VENTURE - CONTINUED

The Lake Michigan Shoreline Water & Sewage Treatment Authority will continue to account for the construction of the two water tower projects and be responsible for debt service on the bonds issued April 24, 2007.

The member contribution percentages for the year ended March 31, 2008, are as follows: Royalton Township - 11.63%, Lincoln Township - 58.12%, and St. Joseph Charter Township - 30.25%.

The following is audited financial information from the Lake Michigan Shoreline Water & Sewage Treatment Authority for the year ended June 30, 2007. A copy of the audited financial report is available for review at the Township office.

| | <u>MODIFIED ACCRUAL</u> | <u>FULL ACCRUAL</u> |
|---------------------------------------|-------------------------|---------------------|
| Assets | \$ 6,417,148 | \$ 7,613,613 |
| Liabilities | 219,485 | 6,481,447 |
| Fund Equity | 6,197,663 | 1,132,166 |
| Revenues and Other Financing Sources | 6,835,607 | 513,237 |
| Expenditures and Other Financing Uses | 1,281,522 | 205,814 |
| Increase in Fund Equity/Net Assets | 5,554,085 | 307,423 |

The Township is contingently liable for 11.63% (\$710,012) of the \$6,105,000 outstanding balance due on the Water Supply System Bonds, Series 2007 issued to Lake Michigan Shoreline Water & Sewage Treatment Authority on April 24, 2007.

NOTE 4 - CAPITAL ASSETS

Capital assets activities for the year ended March 31, 2008 were as follows:

| | <u>BALANCE APRIL 1, 2007</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE MARCH 31, 2008</u> |
|--------------------------------------|----------------------------------|------------------|------------------|-----------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Land | \$ 187,875 | \$ - | \$ - | \$ 187,875 |
| Buildings | \$ 736,645 | \$ - | \$ - | \$ 736,645 |
| Equipment | 201,549 | 10,000 | - | 211,549 |
| Vehicles | 475,519 | 362,433 | (19,130) | 818,822 |
| Subtotal | 1,413,713 | 372,433 | (19,130) | 1,767,016 |
| Less: Accumulated Depreciation | (593,088) | (76,913) | 19,130 | (650,871) |
| Total Capital Assets Other Than Land | \$ 820,625 | \$ 295,520 | \$ - | \$ 1,116,145 |

ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 4 - CAPITAL ASSETS - CONTINUED

| | <u>BALANCE</u> <u>APRIL 1, 2007</u> | <u>ADDITIONS</u> | <u>DELETIONS</u> | <u>BALANCE</u> <u>MARCH 31, 2008</u> |
|--|--|-------------------|-------------------|---|
| BUSINESS-TYPE ACTIVITIES | | | | |
| Construction in process | \$ 456,619 | \$ - | \$ (456,619) | \$ - |
| Vehicles | \$ 22,876 | \$ - | \$ (10,816) | \$ 12,060 |
| Utility Systems | 11,695,391 | 486,725 | - | 12,182,116 |
| Subtotal | 11,718,267 | 486,725 | (10,816) | 12,194,176 |
| Less: Accumulated Depreciation | (2,753,269) | (274,018) | 8,325 | (3,018,962) |
| Total Capital Assets Other Than Construction in Process | <u>\$ 8,964,998</u> | <u>\$ 212,707</u> | <u>\$ (2,491)</u> | <u>\$ 9,175,214</u> |

Depreciation expense was charged in the following functions in the statement of activities:

GOVERNMENTAL FUNCTIONS:

| | |
|--------------------|------------------|
| General government | \$ 25,380 |
| Public safety | 51,533 |
| Total | <u>\$ 76,913</u> |

BUSINESS-TYPE FUNCTIONS:

| | |
|---------------------|-------------------|
| Public Utility Fund | \$ 274,018 |
| Total | <u>\$ 274,018</u> |

NOTE 5 - LONG-TERM DEBT

The following is a summary of long-term debt transactions of the primary government for the year ended March 31, 2008:

| | <u>NOTES</u> <u>PAYABLE</u> | <u>GENERAL</u> <u>OBLIGATION</u> <u>BONDS</u> | <u>TOTAL</u> |
|-------------------------|--------------------------------|---|---------------------|
| Balance, April 1, 2007 | \$ 250,000 | \$ 4,870,000 | \$ 5,120,000 |
| Debt redeemed | (56,820) | (265,000) | (321,820) |
| Balance, March 31, 2008 | <u>\$ 193,180</u> | <u>\$ 4,605,000</u> | <u>\$ 4,798,180</u> |

**ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 5 - LONG-TERM DEBT - CONTINUED

Long-term debt at March 31, 2008 is comprised of the following individual issues:

| BUSINESS-TYPE ACTIVITIES | BALANCE APRIL 1, 2007 | ADDITIONS | REDUCTIONS | BALANCE MARCH 31, 2008 | DUE WITHIN ONE YEAR |
|--|--------------------------------------|------------------|-------------------|---------------------------------------|--------------------------------|
| Berrien County Water Supply System No. 26 Bonds, Series 2005. Principal is due in annual installments of \$15,000 - \$45,000 through May 1, 2025; interest varies from 3.55% - 4.70% | \$ 530,000 | \$ - | \$ (15,000) | \$ 515,000 | \$ 15,000 |
| Berrien County Water Supply System No. 25 Bonds, Series 2003. Principal is due in annual installments of \$100,000 - \$200,000 through May 1, 2023; interest rate varies from 2.4% - 4.45% | 2,450,000 | - | (100,000) | 2,350,000 | 100,000 |
| Berrien County Water Supply System No. 23 Bonds, Series 1998. Principal is due in annual installments of \$100,000 - \$145,000 through May 1, 2018; interest rate varies from 4.4% - 4.75% | 1,295,000 | - | (100,000) | 1,195,000 | 100,000 |
| Berrien County Water Supply System No. 20 Bonds, Series 1994. Principal is due in annual installments of \$75,000 - \$95,000 through May 1, 2014; interest rate varies from 5.75% - 6% | 595,000 | - | (50,000) | 545,000 | 75,000 |
| Total General Obligation Bonds | 4,870,000 | - | (265,000) | 4,605,000 | 290,000 |

The repayment of these general obligation bonds is guaranteed by the Township and Berrien County. The bonds were issued by Berrien County and the Township pays the County the current maturities under a contract. The bonds represent the financing of public improvements that benefit specific districts; these districts are assessed, at least in part, for the cost of the improvements. At March 31, 2008, there is \$3,556,995 of special assessments receivable in the future, the amount expected to be received within one year is \$477,794; the amount of delinquent receivables at March 31, 2008 is not significant.

**ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 5 - LONG-TERM DEBT - CONTINUED

| BUSINESS-TYPE ACTIVITIES - CONTINUED | BALANCE APRIL 1, 2007 | ADDITIONS | REDUCTIONS | BALANCE MARCH 31, 2008 | DUE WITHIN ONE YEAR |
|---|--------------------------------------|------------------|-------------------|---------------------------------------|--------------------------------|
| The Township agrees to reimburse Lincoln Township for the oversized water transmission mains in the amount of \$250,000 paid in annual installments of \$25,000 through June 1, 2008; no interest is being charged. | 50,000 | - | (25,000) | 25,000 | 25,000 |
| Total Business-Type Activities | \$ 4,920,000 | \$ - | \$ (290,000) | \$ 4,630,000 | \$ 315,000 |

**GOVERNMENTAL ACTIVITIES -
PRIMARY GOVERNMENT**

A March 30, 2007, installment note to Fifth Third Bank in the amount of \$200,000 is due in annual principal installments of \$40,000 including interest at 4.09% per annum through March 16, 2013.

| | | | | | |
|---|------------|------|-------------|------------|-----------|
| | \$ 200,000 | \$ - | \$ (31,820) | \$ 168,180 | \$ 33,121 |
| Total Governmental Activities - Primary Government | \$ 200,000 | \$ - | \$ (31,820) | \$ 168,180 | \$ 33,121 |

Annual debt service requirements to maturity for the above obligations are as follows:

| YEAR ENDING MARCH 31, 2008 | BUSINESS-TYPE ACTIVITIES | | GOVERNMENTAL ACTIVITIES | | TOTAL | |
|---------------------------------------|---------------------------------|-----------------|--------------------------------|-----------------|------------------|-----------------|
| | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST | PRINCIPAL | INTEREST |
| 2009 | \$ 315,000 | \$ 193,089 | \$ 33,121 | \$ 6,879 | \$ 348,121 | \$ 199,968 |
| 2010 | 295,000 | 181,093 | 34,476 | 5,524 | 329,476 | 186,617 |
| 2011 | 295,000 | 168,515 | 35,886 | 4,114 | 330,886 | 172,629 |
| 2012 | 320,000 | 155,226 | 37,354 | 2,646 | 357,354 | 157,872 |
| 2013 | 320,000 | 141,299 | 27,343 | 1,118 | 347,343 | 142,417 |
| 2014-2018 | 1,550,000 | 496,961 | - | - | 1,550,000 | 496,961 |
| 2019-2023 | 1,210,000 | 198,061 | - | - | 1,210,000 | 198,061 |
| 2024-2028 | 325,000 | 13,448 | - | - | 325,000 | 13,448 |
| Total | \$ 4,630,000 | \$ 1,547,692 | \$ 168,180 | \$ 20,281 | \$ 4,798,180 | \$ 1,567,973 |

**ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of March 31, 2008, is as follows:

Due to/from other funds:

| <u>RECEIVABLE FUND</u> | <u>AMOUNT</u> | <u>PAYABLE FUND</u> | <u>AMOUNT</u> |
|------------------------|---------------|---------------------|---------------|
| General Fund | \$ 11,665 | Current Tax Fund | \$ 11,665 |

The Current Tax Fund collects tax revenue and remits it to the General Fund.

NOTE 7 - RESTRICTED ASSETS

Restricted assets at March 31, 2008, consist of \$36,097 of cash held at Berrien County. The restricted cash is used for construction in Royalton Township's Public Utility Fund. There is also \$901 of cash in the General Fund restricted for cemetery expenditures, and \$221,286 restricted for road improvements.

NOTE 8 - DEFINED CONTRIBUTION RETIREMENT PLAN

The Township provides pension benefits to all of its full-time employees and elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the Township Board, the Township contributes fifteen percent of employees' gross earnings and employees contribute a minimum of five percent, and a maximum of 10% of earnings. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested immediately.

The Township's total payroll during the current year was \$322,022. The current year contribution was calculated based on covered payroll of \$269,884, resulting in an employer contribution of \$39,972 and employee contributions of \$14,280.

NOTE 9 - DEFERRED COMPENSATION PLAN

The Township offers a deferred compensation plan administered by ING Life Insurance and Annuity Company called the Royalton Township 457 Plan. Eligible employees may contribute 100% of their includible compensation up to limits set by law. There is no requirement for employer contributions. For the current year there were no employer contributions; employees' contributions totaled \$2,272.

NOTE 10 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Township. In the opinion of management and legal counsel, all such matters are covered by insurance or if not so covered, are without merit and, in any event, their ultimate resolution will not have a material effect on the Township's financial position or operations.

**ROYALTON TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 11 - EXPENDITURES OVER BUDGET

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budget of the Township was adopted at the function level. During the year ended March 31, 2008, the Township incurred expenditures in certain budgetary functions, which were in excess of the amount appropriated as follows:

| | <u>ACTIVITY APPROPRIATION</u> | <u>ACTIVITY EXPENDITURES</u> | <u>NEGATIVE BUDGET ACTIVITY</u> |
|------------------------------------|-----------------------------------|----------------------------------|-------------------------------------|
| GENERAL FUND | | | |
| Legislative | \$ 6,600 | \$ 6,612 | \$ (12) |
| Capital outlay | - | 14,506 | (14,506) |
| PUBLIC WELFARE MILLAGE FUND | 397,103 | 525,157 | (128,054) |
| INSPECTION FUND | 240,000 | 251,878 | (11,878) |

NOTE 12 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Township carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 13 - SUBSEQUENT EVENT

On May 1, 2008, the Township issued capital improvement bonds in the amount of \$2,385,000. The bonds are general obligation bonds issued for the purpose of installing a new sanitary lift station and other improvements to the Township's sanitary sewer system. Principal payments range from \$70,000 to \$185,000 per year plus interest varying from 3.0 - 4.0% per year. The final bonds are scheduled to mature on May 1, 2028.

ROYALTON TOWNSHIP
AGENCY FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2008

RECEIPTS:

| | |
|----------------------------------|------------------|
| Current property tax collections | \$ 6,377,773 |
| Interest | <u>9,325</u> |
| Total Receipts | <u>6,387,098</u> |

DISBURSEMENTS:

| | |
|-----------------------|--------------|
| Public schools | 1,621,803 |
| Berrien County | 2,642,612 |
| Other funds | 1,149,388 |
| Berrien County I.S.D. | 533,058 |
| Lake Michigan College | 402,373 |
| Airport | 22,110 |
| State of Michigan | 6,429 |
| Interest | <u>5,623</u> |

| | |
|---------------------|------------------|
| Total Disbursements | <u>6,383,396</u> |
|---------------------|------------------|

| | |
|-----------------------------|-------|
| Receipts Over Disbursements | 3,702 |
|-----------------------------|-------|

| | |
|------------------------------|--------------|
| Cash - Beginning of the Year | <u>7,963</u> |
|------------------------------|--------------|

| | |
|------------------------|------------------|
| CASH - END OF THE YEAR | <u>\$ 11,665</u> |
|------------------------|------------------|

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
STATEMENT OF NET ASSETS
MARCH 31, 2008**

| ASSETS | <u>SEWER ACTIVITY</u> | <u>WATER ACTIVITY</u> | <u>TOTAL</u> |
|---|----------------------------------|----------------------------------|-----------------------------|
| Current Assets: | | | |
| Cash and cash equivalents | \$ (875,233) | \$ 2,858,003 | \$ 1,982,770 |
| Restricted cash | 683 | 35,414 | 36,097 |
| Certificates of deposit | - | 214,083 | 214,083 |
| Current portion of special assessment receivable | - | 477,794 | 477,794 |
| Delinquent water receivable | - | 2,901 | 2,901 |
| Delinquent special assessment receivable | - | 32,528 | 32,528 |
| Total Current Assets | <u>(874,550)</u> | <u>3,620,723</u> | <u>2,746,173</u> |
| Noncurrent Assets: | | | |
| Special assessment receivable | 200 | 3,079,001 | 3,079,201 |
| Water bond cost, net of \$92,494 accumulated amortization | - | 152,112 | 152,112 |
| Water bond discount, net of \$42,689 accumulated amortization | - | 59,394 | 59,394 |
| Plant, property, and equipment | 5,620,985 | 6,573,191 | 12,194,176 |
| Accumulated depreciation | <u>(1,954,617)</u> | <u>(1,064,345)</u> | <u>(3,018,962)</u> |
| Total Noncurrent Assets | <u>3,666,568</u> | <u>8,799,353</u> | <u>12,465,921</u> |
| TOTAL ASSETS | <u>\$ 2,792,018</u> | <u>\$ 12,420,076</u> | <u>\$ 15,212,094</u> |

| LIABILITIES AND NET ASSETS | <u>SEWER ACTIVITY</u> | <u>WATER ACTIVITY</u> | <u>TOTAL</u> |
|---|----------------------------------|----------------------------------|----------------------|
| Current Liabilities: | | | |
| Accounts payable | \$ 60,576 | \$ - | \$ 60,576 |
| Current portion of bonds payable | - | 290,000 | 290,000 |
| Current portion of note payable | - | 25,000 | 25,000 |
| Accrued interest | - | 83,062 | 83,062 |
| Total Current Liabilities | <u>60,576</u> | <u>398,062</u> | <u>458,638</u> |
| Long-Term Liabilities: | | | |
| Bonds payable, net of current portion | - | 4,315,000 | 4,315,000 |
| Total Liabilities | <u>60,576</u> | <u>4,713,062</u> | <u>4,773,638</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 3,666,368 | 878,846 | 4,545,214 |
| Restricted | 683 | 35,414 | 36,097 |
| Unrestricted | <u>(935,609)</u> | <u>6,792,754</u> | <u>5,857,145</u> |
| TOTAL NET ASSETS | <u>\$ 2,731,442</u> | <u>\$ 7,707,014</u> | <u>\$ 10,438,456</u> |

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2008**

| | <u>SEWER ACTIVITY</u> | <u>WATER ACTIVITY</u> | <u>TOTAL</u> |
|---|----------------------------|----------------------------|-----------------------------|
| OPERATING REVENUES: | | | |
| Charges for services | \$ 571,270 | \$ 221,396 | \$ 792,666 |
| OPERATING EXPENSES: | | | |
| Sewer treatment charges | 226,666 | - | 226,666 |
| Professional services | 12,407 | 11,053 | 23,460 |
| Salary and wages | 24,151 | - | 24,151 |
| Payroll taxes | 1,848 | - | 1,848 |
| Depreciation and amortization | 118,714 | 172,639 | 291,353 |
| Utilities | 22,094 | - | 22,094 |
| Supplies | 17,713 | - | 17,713 |
| Repairs and maintenance | 33,556 | - | 33,556 |
| Contribution to LMSWSTA | 7,475 | 79,575 | 87,050 |
| Miscellaneous | 4,498 | 1,520 | 6,018 |
| Total Operating Expenses | <u>469,122</u> | <u>264,787</u> | <u>733,909</u> |
| Operating Income (Loss) | <u>102,148</u> | <u>(43,391)</u> | <u>58,757</u> |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Interest income | 32 | 284,200 | 284,232 |
| Interest expense | - | (199,709) | (199,709) |
| Gain on sale of assets | 121 | - | 121 |
| Total Nonoperating Revenues (Expenses) | <u>153</u> | <u>84,491</u> | <u>84,644</u> |
| Change in Net Assets | 102,301 | 41,100 | 143,401 |
| Total Net Assets - Beginning of the Year | <u>2,629,141</u> | <u>7,665,914</u> | <u>10,295,055</u> |
| TOTAL NET ASSETS - END OF THE YEAR | <u>\$ 2,731,442</u> | <u>\$ 7,707,014</u> | <u>\$ 10,438,456</u> |

**ROYALTON TOWNSHIP
PROPRIETARY FUND
PUBLIC UTILITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008**

| | <u>SEWER ACTIVITY</u> | <u>WATER ACTIVITY</u> | <u>TOTAL</u> |
|---|---------------------------|---------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash receipts from customers | \$ 571,470 | \$ 547,928 | \$ 1,119,398 |
| Other payments | (11,720) | (11,053) | (22,773) |
| Payments to employees | (25,999) | - | (25,999) |
| Payments to suppliers | (313,344) | (81,095) | (394,439) |
| Net cash provided by operating activities | <u>220,407</u> | <u>455,780</u> | <u>676,187</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Interest paid on capital debt | - | (203,750) | (203,750) |
| Principal paid on capital debt | - | (290,000) | (290,000) |
| Sales of capital assets | 2,613 | - | 2,613 |
| Purchases of capital assets | - | (30,106) | (30,106) |
| Net cash provided by (used by) capital and related financing activities | <u>2,613</u> | <u>(523,856)</u> | <u>(521,243)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Special assessment interest received | 32 | 208,015 | 208,047 |
| Interest and dividends received | - | 76,185 | 76,185 |
| Net cash provided by investing activities | <u>32</u> | <u>284,200</u> | <u>284,232</u> |
| Net increase in cash and cash equivalents | 223,052 | 216,124 | 439,176 |
| Balances - Beginning of the Year | <u>(1,097,602)</u> | <u>2,891,376</u> | <u>1,793,774</u> |
| BALANCES - END OF THE YEAR | <u>\$ (874,550)</u> | <u>\$ 3,107,500</u> | <u>\$ 2,232,950</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Operating income | \$ 102,148 | \$ (43,391) | \$ 58,757 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | 118,714 | 172,639 | 291,353 |
| (Increase) decrease in: | | | |
| Accounts receivable | 200 | 326,532 | 326,732 |
| Increase (decrease) in: | | | |
| Accounts payable | 54,856 | - | 54,856 |
| Due to other governments | (55,511) | - | (55,511) |
| Total Adjustments | <u>118,259</u> | <u>499,171</u> | <u>617,430</u> |
| Net cash provided by operating activities | <u>\$ 220,407</u> | <u>\$ 455,780</u> | <u>\$ 676,187</u> |

ROYALTON TOWNSHIP
SCHEDULE OF INDEBTEDNESS - 2005 PROJECT BONDS
MARCH 31, 2008

COUNTY OF BERRIEN, STATE OF MICHIGAN
 BERRIEN COUNTY WATER SUPPLY SYSTEM NO. 26
 PROJECT BONDS (ROYALTON TOWNSHIP)

ISSUE DATED SEPTEMBER 1, 2005 IN THE AMOUNT OF \$535,000

| <u>YEAR ENDING</u> <u>MARCH 31,</u> | <u>INTEREST</u> <u>RATE</u> | <u>INTEREST</u> <u>DUE</u> | <u>PRINCIPAL</u> <u>DUE MAY 1,</u> | <u>TOTAL</u> |
|--|--------------------------------|-------------------------------|---------------------------------------|-------------------|
| 2009 | 3.55% | \$ 21,976 | \$ 15,000 | \$ 36,976 |
| 2010 | 3.70% | 21,340 | 20,000 | 41,340 |
| 2011 | 3.80% | 20,590 | 20,000 | 40,590 |
| 2012 | 3.90% | 19,820 | 20,000 | 39,820 |
| 2013 | 4.00% | 19,030 | 20,000 | 39,030 |
| 2014 | 4.10% | 18,118 | 25,000 | 43,118 |
| 2015 | 4.15% | 17,086 | 25,000 | 42,086 |
| 2016 | 4.20% | 16,043 | 25,000 | 41,043 |
| 2017 | 4.25% | 14,986 | 25,000 | 39,986 |
| 2018 | 4.30% | 13,810 | 30,000 | 43,810 |
| 2019 | 4.35% | 12,513 | 30,000 | 42,513 |
| 2020 | 4.40% | 11,200 | 30,000 | 41,200 |
| 2021 | 4.45% | 9,761 | 35,000 | 44,761 |
| 2022 | 4.50% | 8,195 | 35,000 | 43,195 |
| 2023 | 4.55% | 6,611 | 35,000 | 41,611 |
| 2024 | 4.60% | 4,895 | 40,000 | 44,895 |
| 2025 | 4.65% | 3,045 | 40,000 | 43,045 |
| 2026 | 4.70% | 1,058 | 45,000 | 46,058 |
| | | <u>\$ 240,077</u> | <u>\$ 515,000</u> | <u>\$ 755,077</u> |

Interest on the above bonds is payable semi-annually at the indicated rate on May 1 and November 1.

ROYALTON TOWNSHIP
SCHEDULE OF INDEBTEDNESS - 2003 PROJECT BONDS
MARCH 31, 2008

COUNTY OF BERRIEN, STATE OF MICHIGAN
 BERRIEN COUNTY WATER SUPPLY SYSTEM NO. 25
 PROJECT BONDS (ROYALTON TOWNSHIP)

ISSUE DATED JANUARY 1, 2004 IN THE AMOUNT OF \$2,600,000

| <u>YEAR ENDING</u> <u>MARCH 31,</u> | <u>INTEREST</u> <u>RATE</u> | <u>INTEREST</u> <u>DUE</u> | <u>PRINCIPAL</u> <u>DUE MAY 1,</u> | <u>TOTAL</u> |
|--|--------------------------------|-------------------------------|---------------------------------------|---------------------|
| 2009 | 2.40% | \$ 87,637 | \$ 100,000 | \$ 187,637 |
| 2010 | 2.70% | 85,088 | 100,000 | 185,088 |
| 2011 | 3.00% | 82,237 | 100,000 | 182,237 |
| 2012 | 3.15% | 78,769 | 125,000 | 203,769 |
| 2013 | 3.35% | 74,706 | 125,000 | 199,706 |
| 2014 | 3.40% | 70,487 | 125,000 | 195,487 |
| 2015 | 3.55% | 66,144 | 125,000 | 191,144 |
| 2016 | 3.70% | 61,150 | 150,000 | 211,150 |
| 2017 | 3.80% | 55,525 | 150,000 | 205,525 |
| 2018 | 3.90% | 49,750 | 150,000 | 199,750 |
| 2019 | 4.00% | 43,825 | 150,000 | 193,825 |
| 2020 | 4.10% | 37,238 | 175,000 | 212,238 |
| 2021 | 4.20% | 29,975 | 175,000 | 204,975 |
| 2022 | 4.30% | 22,000 | 200,000 | 222,000 |
| 2023 | 4.40% | 13,300 | 200,000 | 213,300 |
| 2024 | 4.45% | 4,450 | 200,000 | 204,450 |
| | | <u>\$ 862,281</u> | <u>\$ 2,350,000</u> | <u>\$ 3,212,281</u> |

Interest on the above bonds is payable semi-annually at the indicated rate on May 1 and November 1.

ROYALTON TOWNSHIP
SCHEDULE OF INDEBTEDNESS - 1998 PROJECT BONDS
MARCH 31, 2008

COUNTY OF BERRIEN, STATE OF MICHIGAN
 BERRIEN COUNTY WATER SUPPLY SYSTEM NO. 23
 PROJECT BONDS (ROYALTON TOWNSHIP)

ISSUE DATED JULY 1, 1998 IN THE AMOUNT OF \$1,820,000

| <u>YEAR ENDING</u> <u>MARCH 31,</u> | <u>INTEREST</u> <u>RATE</u> | <u>INTEREST</u> <u>DUE</u> | <u>PRINCIPAL</u> <u>DUE MAY 1,</u> | <u>TOTAL</u> |
|--|--------------------------------|-------------------------------|---------------------------------------|---------------------|
| 2009 | 4.40% | \$ 53,213 | \$ 100,000 | \$ 153,213 |
| 2010 | 4.50% | 48,762 | 100,000 | 148,762 |
| 2011 | 4.55% | 44,238 | 100,000 | 144,238 |
| 2012 | 4.55% | 39,687 | 100,000 | 139,687 |
| 2013 | 4.60% | 35,113 | 100,000 | 135,113 |
| 2014 | 4.65% | 30,487 | 100,000 | 130,487 |
| 2015 | 4.70% | 25,813 | 100,000 | 125,813 |
| 2016 | 4.70% | 21,112 | 100,000 | 121,112 |
| 2017 | 4.75% | 15,794 | 125,000 | 140,794 |
| 2018 | 4.75% | 9,856 | 125,000 | 134,856 |
| 2019 | 4.75% | 3,443 | 145,000 | 148,443 |
| | | <u>\$ 327,518</u> | <u>\$ 1,195,000</u> | <u>\$ 1,522,518</u> |

Interest on the above bonds is payable semi-annually at the indicated rate on May 1 and November 1.

ROYALTON TOWNSHIP
SCHEDULE OF INDEBTEDNESS - 1988 EXTENSION BONDS
MARCH 31, 2008

COUNTY OF BERRIEN, STATE OF MICHIGAN
BERRIEN COUNTY WATER SUPPLY SYSTEM NO. 20
PROJECT BONDS (ROYALTON TOWNSHIP)

ISSUE DATED OCTOBER 1, 1994 IN THE AMOUNT OF \$1,195,000

| <u>YEAR ENDING</u> <u>MARCH 31,</u> | <u>INTEREST</u> <u>RATE</u> | <u>INTEREST</u> <u>DUE</u> | <u>PRINCIPAL</u> <u>DUE MAY 1,</u> | <u>TOTAL</u> |
|--|--------------------------------|-------------------------------|---------------------------------------|-------------------|
| 2009 | 5.750% | \$ 30,263 | \$ 75,000 | \$ 105,263 |
| 2010 | 5.875% | 25,903 | 75,000 | 100,903 |
| 2011 | 6.000% | 21,450 | 75,000 | 96,450 |
| 2012 | 6.000% | 16,950 | 75,000 | 91,950 |
| 2013 | 6.000% | 12,450 | 75,000 | 87,450 |
| 2014 | 6.000% | 7,950 | 75,000 | 82,950 |
| 2015 | 6.000% | 2,850 | 95,000 | 97,850 |
| | | <u>\$ 117,816</u> | <u>\$ 545,000</u> | <u>\$ 662,816</u> |

Interest on the above bonds is payable semi-annually at the indicated rate on May 1 and November 1.

ROYALTON TOWNSHIP
SCHEDULE OF INDEBTEDNESS - 2007 INSTALLMENT NOTE
MARCH 31, 2008

| <u>YEAR ENDING</u> <u>MARCH 31,</u> | <u>INTEREST</u> <u>RATE</u> | <u>ANNUAL</u> <u>DEBT SERVICE</u> | <u>INTEREST</u> <u>DUE</u> | <u>PRINCIPAL</u> <u>DUE MAY 1,</u> | <u>BALANCE</u> |
|--|--------------------------------|--------------------------------------|-------------------------------|---------------------------------------|----------------|
| 2009 | 4.09% | \$ 40,000 | \$ 6,879 | \$ 33,121 | \$ 135,059 |
| 2010 | 4.09% | 40,000 | 5,524 | 34,476 | 100,583 |
| 2011 | 4.09% | 40,000 | 4,114 | 35,886 | 64,697 |
| 2012 | 4.09% | 40,000 | 2,646 | 37,354 | 27,343 |
| 2013 | 4.09% | 28,461 | 1,118 | 27,343 | - |
| | | <u>\$ 188,461</u> | <u>\$ 20,281</u> | <u>\$ 168,180</u> | |

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

June 24, 2008

Communication of Significant Deficiencies and Material Weaknesses

Township Board
Royalton Township
Berrien County, Michigan

To the Members of the Township Board:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Royalton Township as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Royalton Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

The Township is required by the Michigan Department of Treasury to create a special revenue fund for the money that was levied for street improvements. Currently this money is in the General Fund. We recommend that the Board approve the creation of a new special revenue fund to account for this money. After this fund is created the money that is held in the General Fund should be transferred to this new fund. In accordance with budgeting regulation, the Board is required to adopt a budget for this new special revenue fund.

Right. On time.

PHONE: 269-983-0534 ■ FAX: 269-983-7050 ■ EMAIL: gerbel@parrett.net ■ WEB SITE: www.gerbel.com

As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting functions. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse. Due to the size of the Township we recommend that the Township Board continue to review monthly information to mitigate this risk, and rely on the annual external audit to help identify and correct misstatements, as needed.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

During the audit we noted there was little or no review process for prepared bank reconciliations. We recommend that the bank reconciliations be reviewed on a timely basis by the Township manager, who is independent of the cash transaction cycle.

This communication is intended solely for the information and use of management, the Township Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


GERBEL & COMPANY, P.C.
Certified Public Accountants

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

June 24, 2008

Township Board
Royalton Township
Berrien County, Michigan

To the Township Board Members:

In planning and performing our audit of the financial statements of Royalton Township for the year ended March 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purposes of expressing an opinion on the financial statements, but not to provide assurance on the internal control structure. However, certain matters were noted which we have included as recommendations that may be beneficial to the operation of the Township. These recommendations are in addition to our significant deficiencies and material weaknesses that were presented in a separate letter.

In connection with our audit of the books and records of Royalton Township for the year ending March 31, 2008, we offer the following comments and recommendations:

1. During the audit we learned that the Treasurer signature stamp is locked in the vault. We would recommend that this stamp be in the custody of the Township Manager who is independent of the cash transaction process.
2. During the audit we noted that the individual accounting programs do not require a user name or password. We recommend all major computer programs be required to have a specific user name and password to access them to prevent unauthorized access.
3. During the audit we noted that in the Current Tax Fund there was a check reissued to Lakeshore Public Schools in the amount of \$27,449.59. However, a stop payment has not been issued on the previous check, number 3057, and is currently unaccounted for. We suggest that before reissuing a check the Township should issue a stop payment for the previous check. We recommend the Township issue a stop payment on this check.
4. During the audit we noted that the current policy and procedure manual has not been updated in quite some time. To promote strong internal control we recommend that this policy manual be reviewed by administration and the Board and be updated.
5. While reviewing the Township's United States Tax Form 1099's, it was noted that no 1099's were issued to attorneys. The Township is required by law to issue 1099's to all attorneys which the Township pays during the year.
6. During the audit we noted that there was no documentation that time cards were being reviewed. We recommend that all time cards be reviewed by the appropriate supervisor before payroll checks are prepared.

Right. On time.

PHONE: 269-983-0534 ■ FAX: 269-983-7050 ■ EMAIL: gerbel@parrett.net ■ WEB SITE: www.gerbel.com

We appreciate the courtesy and cooperation extended to us by the management and employees of the Township and trust that these comments and suggestions will be received in the spirit of cooperation in which they are offered.

This report is intended solely for the information and use of Royalton Township's Board. This restriction is not intended to limit distribution of this report which is a matter of public record.

If we can be of any help in implementing any of these suggestions, or if you have any questions regarding these or any other matters, please feel free to contact us.

Very truly yours,

Gerbels & Company, P.C.
GERBEL & COMPANY, P.C.
Certified Public Accountants